

# PERFORMANCE AUDIT

Of the Management of Capital Projects by the  
Department of Design and Construction

**Report 2003-2**  
**April 2003**

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# PERFORMANCE AUDIT HIGHLIGHTS

April 2003

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## Management of Capital Projects by the Department of Design and Construction

### Introduction

The Department of Design and Construction was established by the 1998 reorganization to centralize the City's construction function. At the close of FY 2002, the department managed over 1,000 ongoing projects and construction contracts totalling \$579 million in value.

The objective of this in-house audit by the Office of Council Services was to assess the management of capital projects by the department and develop recommendations to address any weaknesses identified.

### Findings And Recommendations

1. The Department Manages Its Projects in an Ad Hoc Manner.  
Policies and procedures for managing projects have not been established, resulting in questionable change orders, inconsistent project oversight, and problems for client agencies.  
Recommendation: the department should adopt written policies and procedures on project management, provide training, and monitor compliance. The policies should minimize change orders during construction, require the work authorized pertain to the project, and preclude change orders after project completion. The department should consider enabling a single project manager to oversee all phases of a project through completion. The policies should also define the role of client agencies in approving project plans and designs.
2. The Department's Project Information is Incomplete and Inaccurate.  
Incomplete and inaccurate information in the department's project files and in reports on capital projects hinders project oversight by the department, City Administration, the Council, and the public.  
Recommendation: the department should establish written policies and procedures controlling project documents and controlling record keeping by both employees and contracted project managers. Project files should include a project summary identifying all project managers and other participants, initial budgets and timetables, current status, appropriations and expenditures to date, and all required studies for the project.

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3. The Department's Workload, Coupled with the City's Appropriation Deadline, Leads to Rushed Plans, Impaired Bids, and Unnecessary Change Orders.

The heavy workload has delayed the start of work on each year's new projects, so design work is rushed, plans and specifications go out to bid that are incomplete or contain obvious errors, consultants are not held responsible for mistakes, and ad hoc methods are used to prevent funds from lapsing.

Recommendation: Construction funding should be budgeted in the year following the budgeting of planning and design funding, consultants should be held responsible for their work, and the City Administration should exercise its existing budget allotment authority to match project workload to the existing project management resources.

4. The Department Failed to Provide Complete and Accurate Information for this Audit.

During this audit, departmental staff denied current involvement with the projects audited even though documents, client agency staff, and written approvals of contract amendments showed otherwise.

Requested information was denied to the auditor and official City project documents were discarded.

Recommendation: The department should adopt a policy ensuring auditors have access to all files, records, staff, and contractors, that employees and contractors are familiar with laws and policies relating records tampering, records retention, and audits, and that serious consequences result for employees and contractors who violate those laws and policies.

## **Agency Response**

The Department of Design and Construction generally agreed with our report. However, it maintained that it was not responsible for budgeting capital projects, approving change orders, selecting project consultants, and reporting project status or expenditures. It also stated that it does hold consultants responsible for any errors or omissions. We stand by our report.

## I. Introduction

This audit of the Department of Design and Construction's management of capital projects was initiated by the Office of Council Services' Audit Section as part of its ongoing program to audit various City programs and services on a rotating basis. It is the intent of the Audit Section to include capital project management programs of the City in the audit rotation schedule due to the large amount of expenditures involved, the visibility of capital projects, and the significant impact such projects have on City residents. Limiting the scope of the audit to the management of capital projects made it suitable for an in-house audit.

### A. Objectives

The objectives of this audit were to assess the adequacy of the management policies and procedures pertaining to the development of capital projects by the Department of Design and Construction, and to develop recommendations to address any weaknesses identified. The assessment was based on the effectiveness of the department's policies and procedures in:

- (1) Keeping projects on time and within budget;
- (2) Ensuring that completed projects meet their quality or performance objectives;
- (3) Organizing project staff and the project development process effectively; and
- (4) Keeping the Council informed about the status of ongoing projects.

### B. Scope

In this audit, the capital project management policies and procedures of the department as a whole were reviewed. We also reviewed the management of three sample projects in detail that were recently

completed. The projects were managed during at least one of their work phases by the following divisions of the department: Civil Division, Facilities Division, Mechanical/Electrical Division, and the department's I-Team<sup>1</sup>. We were unable to review a project from the Wastewater Division because of the need to complete this audit before all audit functions were transferred out from our office.<sup>2</sup> In addition, such projects had been evaluated in prior audits. We did not review any projects from the Land Division because that division internally services the other divisions and is not responsible for implementing capital projects.

We were hampered in conducting this audit by the misleading information provided by the department, and by the refusal or inability of certain staff members and contractors to provide requested information. Nevertheless, we were able to gather sufficient information to document the findings contained in this report.

The fieldwork for this audit was conducted from July 2002 to January 2003.

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<sup>1</sup> In July 2001, the Mayor, managing director, and directors assembled the "Initiative-Team" or "I-Team," consisting of architects and engineers to handle high priority projects. Half of the team were handpicked, experienced City project managers temporarily assigned to DDC and half were personal services contractors. Although the I-Team was originally planned to disband in July 2002, as of February 2003, the I-Team was still operating with six project managers.

<sup>2</sup> Voters in the November 5, 2002 General Election ratified an amendment to the Revised Charter of Honolulu creating a separate Office of the City Auditor on July 1, 2003. All auditing functions were to be transferred from the Office of Council Services to the new office on that date.

### C. Methodology

Departmental staff were interviewed and internal documents relating to the monitoring and development of current and recent capital projects were reviewed. In addition to reviewing the department's management of capital projects as a whole, we selected three capital project to examine in further detail. Three capital project that were recently completed by the department were selected for more detailed review from a list of ongoing and recently completed projects prepared by the department. For these sample projects, the department's project managers, the staff of City agencies that initiated or were end users of the projects, contractors, and Vision Team members involved in the sample projects were interviewed.

We considered projects managed by different divisions, different client agencies, and included Vision Team<sup>3</sup> projects. We sought to include projects that have experienced significant issues relating to change orders, budget overages, or time overages. This was because we believed those challenges would serve to highlight the efficacy of the department's management controls. At the same time, we avoided projects that were implicated in current litigation because of our desire to complete this audit expeditiously.

The official files for each sample project, including the working files of project managers were reviewed, and a site visit of each sample project was conducted. We reviewed the State's laws and rules; and the City's charter, budgets, ordinances, and policies. Finally, documents informing the Council of the status of the department's capital projects were also examined.

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<sup>3</sup> In FY 1999, the Mayor organized Vision Teams in various parts of the island to come up with ideas for capital improvements to improve their communities. The Vision Teams continue to meet from time to time to monitor past projects and propose new ones.

## II. Background

### A. Current Agency Profile

In 1998, the Mayor conducted a sweeping reorganization of City government which centralized construction activities in a new Department of Design and Construction. The department is established by City charter to, among other things, plan, design, and construct the public buildings and infrastructure of the City. The department functions as a construction and development consultant to other “client” City departments that either initiate the projects or are responsible for the projects upon completion.

Since its establishment, the department has undergone at least two major internal reorganizations. Currently, the department is organized into five divisions: Civil Division, which manages infrastructure projects excluding wastewater; Facilities Division, which manages projects relating to public buildings and other facilities; Mechanical/Electrical Division, which is involved in facility projects requiring such specialized expertise, such as those involving security cameras, telecommunications, and energy conservation; Wastewater Division, which manages wastewater projects; and Land Division, which conducts the land survey, title search, appraisal, and land acquisition negotiations for City projects. In its operating budget for FY 2003, the department accounted for 306 permanent positions and \$16 million in total spending. An additional \$6 million in project management for wastewater facilities was budgeted in the FY 2003 capital budget from the sewer fund.

The department’s workload has grown significantly in recent years. As of the close of FY 2002, the department managed over 1,000 ongoing projects, and ongoing construction contracts totalled \$579 million in value. To manage this number of projects, the department engaged 27 contract staff to supplement its permanent staff and hired consultants to manage projects.

### B. Prior Audits

This is the first audit of the department since its establishment as part of the 1998 reorganization. However, other construction-related agencies of the City have been audited by our office or by consultants for the City Council as follows:

Performance Audit of the Management of Capital Projects by the Department of Transportation Services, April 2001.

Performance Audit of the Infiltration and Inflow Minimization Plan Project, July 1998.

Performance Audit of the Gulick Avenue Relief Sewer Project, February 1998.

Long Range Financing Alternatives for the City's Wastewater System, April 1995.

Coopers & Lybrand, Performance Audit of the Honolulu Police Department Headquarters Project, August 1993.

Some of the major recommendations of those audits are as follows:

- Projects should have a single project manager/entity exercising adequate control from planning through completion.
- The roles, responsibilities and authority of project managers should be established in writing.
- Written criteria should be established to define when outside project managers should be used.
- Change order procedures should be better defined regarding responsibilities, minimum information requirements, and deadlines. These written procedures should be included in project contracts.
- Project planning should be completed before construction funds are requested and expended.
- Project costs and schedules should be re-forecasted when major problems are discovered.

Project budget variances should be reforecasted in light of the new circumstances.

- Policies should be established in writing for deciding how project costs are estimated and approved.
- Capital project record keeping requirements should be established to ensure that key documents are retained and organized.

### C. Projects Reviewed

The three projects selected for review reflect the diversity of capital projects managed by the department. Two involve physical construction, while one involves a large procurement of high technology equipment.

A synopsis of each selected project follows.

#### 1. Kahaluu Flood Control/Kahaluu Regional Park.

The Kahaluu Flood Control project, managed by the Civil Division, was to perform maintenance dredging of the Kahaluu flood control lagoon and outlet channel. Beginning with the FY 1991 budget, a total of \$6.2 million has been appropriated for this project.

The dredged material was subsequently used as fill for the later development of ball fields for the Kahaluu Regional Park Phase I project, whose land is adjacent to the Kahaluu flood control lagoon. Phase I included final grading of the land, providing irrigation, and development of ball fields. The Kahaluu Regional Park Phase I project was a Vision Team project. Since FY 1991, \$4.2 million has been appropriated for this project.

Although the flood control project and the park project are separate, the department listed them as a single project on its list of ongoing and recently completed projects. As a result, when we selected this project for review, we eventually conducted fieldwork on both projects.

#### 2. Salt Lake Boulevard Enhancement.

Under this project, various design elements and landscaping were to be added to improve the appearance of the concrete walls and medians of Salt Lake Boulevard between Ala Liliko'i Street and Puuloa Road, a distance of 0.9 miles. This was a Vision Team project managed first by the Facilities Design & Engineering Division, then by the I-Team. Although the project was initially described in the City's budget documents as requiring as much as \$6.3 million over six years, \$3.1 million was actually appropriated for the project in the City's capital budgets. This is further discussed in the findings.

#### 3. Mobile Data Computer System for the Honolulu Police Department.

The Mobile Data Computer project, managed by the Mechanical/Electrical Division, was to install in police vehicles laptops networked via 800 MHz radio with the City's mainframe computers. The laptops would enable officers to perform a number of functions to make policing more efficient. The project was prompted by a 1998 COPS MORE federal grant that provided three-to-one matching funds for local police departments. As described in the findings, the amount of past appropriations for this project could not be determined.

### III. Findings and Recommendations

We found that the Department of Design and Construction (DDC) does not have an effective management system to help it fulfill its mission of serving as the City's centralized capital project development agency. It has not established policies or procedures to guide how staff carry out their responsibilities. Nor has it established any agreements defining the respective roles of DDC and its "client agencies"<sup>4</sup> during the project development process. Projects are therefore developed in an ad hoc manner.

The quality of information DDC maintains internally on the projects it manages, and the information it provides to others, is incomplete and inaccurate. The inadequacy of DDC's management system is exacerbated, but not explained, by the large number of projects it must develop. Although DDC has taken steps to better handle its workload burden, none of its staff expects that the Department can keep up with its current workload, or keep pace with the growing workload expected in the foreseeable future.

Operationally, DDC's organizational culture is reactive, and can be characterized as crisis management. DDC needs to take charge of the way it manages its projects and establish appropriate policies and procedures to ensure that the City is getting the best use of the limited funding that is available.

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<sup>4</sup> By "client agencies", we are referring to those City agencies that would be using the facilities completed by DDC.

#### Finding Number One:

#### The Department Manages Its Projects In an Ad Hoc Manner

- **The Department has not yet established policies and procedures for managing its capital projects.**
- **Result: the Department's capital projects are managed in an ad hoc manner, resulting in questionable change orders, inconsistent project oversight, and problems for client agencies.**

#### Project Management Policies and Procedures Have Not Yet Been Established

In any organization, the fundamental responsibility of management is to implement measures such as policies and procedures that ensure that the work of the organization is performed effectively and efficiently in accordance with the organization's mission and objectives, and that its resources are safeguarded from loss and misuse.

It has been five years since the 1998 citywide reorganization consolidated the capital project development functions of the City in a new Department of Design and Construction. In that time, the department has been managed by four different directors.<sup>5</sup> Whether due to these and other internal changes, we found that DDC has not yet adopted basic operational policies and procedures governing the management of its capital projects to ensure that the projects it develops are completed on-time, within budget, and meet the needs of its client agencies. In lieu of such policies, the

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<sup>5</sup> FY 1999: Randall Fujiki. FY 2000: Gary Yee. FY 2001 and 2002: Rae Loui. At this writing, Timothy Steinberger served as acting director.

department's projects are currently planned, designed, constructed and implemented in accordance with individual staff members' prior experience, with verbal instructions of co-workers, or with reference to project manuals from the City departments that existed prior to DDC's establishment.

Without established policies and procedures that provide DDC administrators, project managers, and contractors with the direction needed to plan, design, and construct capital projects in accordance with the user or client agency's needs, the department has no assurance that the projects it manages for other City agencies will be consistently and properly implemented, nor that the projects will be managed in a way that protects the City's interests.

In response to our audit, DDC prepared flow charts of its project management process, began drafting policies and procedures to manage capital projects, and finalized its organization chart and its description of the functional responsibilities of its divisions.

### **Projects Can Be Changed At Any Time, and Change Orders and Contract Amendments are Used Questionably and Inconsistently**

Limiting changes to a project's scope after the project begins, especially after a project's design is detailed and finalized, is essential to controlling increases in project cost. Late changes can be expensive and difficult to make.

Guarding against such late changes is the objective of the department's Design Review Committee, whereby key department heads review important design projects and provide feedback and request changes by the design consultant before a project's design is finalized. Despite the operation of this committee, project managers informed us that changes to a project's scope of work can still occur at any time during the design and construction phase. Changes to a project's scope of work were cited as a reason for change orders during construction.

Project managers are responsible for reviewing contractor requests for change orders, negotiating their cost and recommending approval. Because the department lacks a formal policy to guide and control the use of change orders, project managers must rely on prior experience or verbal instructions from co-workers or supervisors.

We found a late change to a project's scope and a questionable use of change orders on two of the projects we examined. One was the Kahaluu Flood Control project. Normally, upon acceptance of a completed facility, the department would prepare to close out the construction contract and release the remaining contract payments to the contractor. Closing out a contract would allow any remaining appropriations to lapse and free the funding for other purposes.

The Kahaluu Flood Control project was completed and accepted on October 1, 1998. Seven months later, in May 1999, the department released all but \$100 of the payment due to the contractor, which enabled the department to retain access to the project's remaining contingency funds totaling \$645,342. In October 2001, the department initiated a \$587,990 change order to grade the dredged soil from the flood control project. This change order occurred two years after work on the project had been completed. Further, the grading that was the subject of the change order was not required for the flood control project. Instead, the grading was to make the soil suitable for the development of baseball and soccer fields for the Kahaluu Regional Park, a separate project whose site was used to stockpile the soil from the flood control project. Therefore, funding of at least \$587,990 for the flood control project that would have otherwise lapsed in 1998 was maintained and expended in 2001 for the park project, despite being counted as part of the flood control project's expenditures.

Similarly, the department approved a \$577,383 change order for the City's 800 MHz radio project to acquire equipment and services for the police department's Mobile Data Computer project. The radio system change order and the execution of the initial laptop computer contract occurred on the same day, December 31, 1998. While the two

projects are related through the use of the 800 MHz radio system, the projects are separate.

We do not know how prevalent in the City is the practice of using funding from one project for a different project. Clearly, such diversion of funding authority is contrary to the intent of the budget ordinance and the charter.

We also found that change orders and contract amendments have been used inconsistently for goods and services contracts. For the Honolulu Police Department's Mobile Data Computer project, the planned acquisition of additional quantities of laptops and related equipment was handled through a series of seven contract amendments. For the related 800 MHz Radio project, a series of 19 change orders were used to acquire additional equipment. The department has not established a consistent method of acquiring additional equipment under contract.

### **Appearance of Conflict of Interest Involving A Consultant for Vision Projects**

In the Salt Lake Boulevard Enhancement project we reviewed, the project's history began with an unpaid consultant getting involved with the Salt Lake Vision Team to help define its projects. When the City funded the Salt Lake project, DDC engaged that consultant as the paid design consultant. The initial \$100,000 design contract with that consultant subsequently underwent two contract amendments that boosted the total cost of the design contract to \$266,900. We found that the role of the consultant for this Vision Team project may have the appearance of a conflict of interest.

Although it is not our contention that this contract was improperly or inappropriately procured or administered by DDC, we suggest that using the unpaid Vision Team consultant as the paid designer for the project recommended by that Vision Team raises the appearance of a conflict of interest for that consultant. Any contract amendments and change orders subsequently requested by that consultant could also raise suspicion. When this situation was brought to the department's attention, the

department denied that an appearance of a conflict of interest existed.

### **Project Oversight Lacks Continuity and Consistency**

The sample projects we reviewed evidenced substantial turnover of project managers and assignment of new managers as the projects advanced through their different work phases.<sup>6</sup> In view of the frequency of changes in project managers, it is incumbent for the department to ensure continuity in project management. When responsibility for a project shifts from the planning phase project manager to the design phase project manager, and then to a construction phase project manager, there is a risk of losing key project information at each transfer. That risk is also present when project managers change while the project remains in a single work phase, as when staff members retire, transfer, quit, or when the contracts of contract managers expire.

We found that in the department's Mechanical and Electrical Division and the I-Team, a single project manager is assigned to oversee a project from start to finish. Having a single project manager oversee a project as it advances through the various work phases provides needed management continuity. Unfortunately, only a minority of projects in the department enjoy continuous oversight.

For most of the department's projects, a different project manager is assigned to the project as it moves through the work phases of planning, design, and construction. This approach reflects a

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<sup>6</sup> The Kahaluu Regional Park project we reviewed was managed by three project managers: one for master planning, another for part of the design phase. The project was then transferred to the I-Team for the remainder of the design and construction phases. The Kahaluu Flood Control project had two project managers during the design phase and two project managers during the construction phase, for a total of four project managers. These changes were due to the retirement of the original design and construction project managers. The Salt Lake Boulevard Enhancement project had two project managers from design through construction.

continuation of the project management practices used by City agencies prior to the 1998 citywide reorganization that consolidated most of the City's capital project management staff within DDC. The department has no formal method of safeguarding against the loss of key project information during the transfer of project management. Division administrators leave it up to branch chiefs to tell project managers what documents should be kept for the department's official project file and for the manager's working files.

Inadequate transfer of project information has already adversely impacted some projects. One consultant expressed frustration that months of work were lost when the consultant discovered that basic information required for a project had not yet been developed. The consultant also noted that the department does not have a central record of master plans, environmental assessments, or approvals for its projects. In one case, the consultant reported that had a Vision Team known that certain studies were needed to move forward with a project, that project might not have been proposed by the Vision Team.

We found that the transfer of projects from manager to manager as work progresses becomes even more problematic because project managers sometimes do not share important information about a project. For example, we were told that the department's project manager for the design phase of a project does not inform the department's project manager for the construction phase about the project's contingency funds. That is reportedly to keep such funding information from being revealed to the construction contractor, who might then initiate unnecessary change orders.

Another practice in the department is to require the project manager for the construction phase to route questions for the design consultant through the department's design phase project manager, rather than to question the consultant directly. This inefficient communication procedure is reportedly used to prevent the design consultant from charging the City for extra work. However, for the sake of expediency, informal agreements are sometimes established by project managers on a case by case

basis to allow managers to directly communicate with consultants.

We found that unlike the department's other divisions, the managers in the I-Team were made responsible for all phases of a project. This provided continuity in project management. However, even I-Team managers suffered from the absence of formally established policies and procedures defining their role, responsibilities, and authority over projects. I-Team managers expressed to us their frustration that they really needed, but never had, clear operational guidelines for managing their projects.

### **Client Agencies Express Concerns About Poor Communication and Opportunities for Input**

We found that most client agencies involved in the projects we reviewed were satisfied with the projects completed by DDC. However, those agencies also expressed concerns about the effort made by DDC to manage the projects it developed for the client agency and how effectively client agencies could provide input to DDC on those projects.

In the five years that have passed since the 1998 citywide reorganization, the Department of Design and Construction has yet to establish any written agreements with City client agencies regarding their respective roles and responsibilities during the development process. Those client agencies will ultimately use, staff, and maintain the facilities developed by DDC after they are completed.

Currently, the roles, responsibilities and chain of authority between DDC and the client agencies are established by verbal agreements and longstanding practice. Under these informal arrangements, the balance of project control between DDC and the client agency varies from project to project. For many projects, such as the Salt Lake and Kahaluu Flood Control and park projects, DDC is heavily involved in project decision making. For others, such as the Mobile Data Computer project, the client agency can find that the support it thought DDC was to provide is absent. Regardless of its level of

involvement, each client agency expressed the need for formally establishing project management roles, responsibilities, and chain of command.

After a project's design is completed and before construction bids are solicited, the department's practice is to submit the project plans to the client agencies for review and comment. Client agencies submit their recommendations for changes, based on concerns relating to such things as maintenance requirements or the durability of fixtures. The client agencies reported that their recommendations to DDC are often ignored. Further, they typically find out whether their recommendations were accepted or rejected only during final inspection, when the client agencies help determine whether the completed project should be accepted. Making corrections at that time is difficult, expensive, or impossible. Finally, the client agencies reported that they do not always have the final plans from DDC by the time of the final inspection. Since many construction details are not visible during inspection, the lack of those plans diminishes the effectiveness of final inspections and hinders the ability of the client agencies to conduct future maintenance and repair of their facilities.

The criticisms cited by the client agencies can be attributed to inadequate communication and understandings between DDC and client agencies. Establishing interagency agreements and policies and procedures for managing capital projects on behalf of client agencies would be the foundation for improving communication between the entities. Misunderstandings and miscommunications about the management of projects have wasted time and increased project costs, as discussed in the next section.

### **DDC Inadequately Managed the Police Laptop Computer Project**

Misperceptions about role and responsibilities of a project manager and poor communication wasted time and money on the Honolulu Police Department's (HPD) Mobile Data Computer System project. This was a large and complex project in terms of its broad scope and the newness of the

technology and applications. The difficulty of the project was compounded because DDC, HPD, the system contractor and subcontractors had no actual experience implementing a system carrying both voice transmission and data from the laptop computers on the same channel of an 800 MHz radio system. Although DDC worked closely with HPD during the system's planning and design, serious problems with project management developed during the implementation phase, when the first laptops began to be installed and tested.

At the beginning of the implementation phase, all of the parties agreed to attend weekly meetings to ensure that this complex project would be implemented in time to meet federal grant requirements. However, as problems began to mount, DDC's project manager unilaterally ceased to provide project management services for the project and eventually stopped attending steering committee meetings. Phone calls and emails from HPD and the contractor requesting information and assistance from DDC went unanswered. HPD never received either a verbal or written explanation from the department, nor any indication that a new project manager would assume those responsibilities. The contractor noted that if DDC could not assign someone who could focus on managing this project, it should have either (1) allowed HPD to manage this project; or (2) hired a knowledgeable contract project manager who could make the decisions needed to keep the project on time and within budget. Instead, DDC did neither.

From that point on, HPD and the contractor assumed most of the project management duties without DDC. However, DDC still retained administrative control of the contract and was responsible for processing contract amendments ordering successive increments of laptops and equipment. HPD and the contractor expressed frustration at the time it took to prepare and make a separate presentation for DDC when the department's project manager could have participated in the weekly status meeting discussions and decision-making on the project.

Difficulties with the software and the contractor's inability to provide a satisfactory solution eventually led to a contract dispute. In essence, the software

would not print police reports properly and would not allow officers to save their reports on a computer disk. Unable to resolve the software problems, the system contractor and subcontractor recommended that the police department revise their work and reporting processes to fit the software. This was unacceptable to HPD.

Lacking the expertise to resolve the technical concerns over the laptops and radio system and the dispute over contract management, HPD expected DDC's project manager to assist in enforcing the terms of the contract. When that help was not provided, HPD subsequently expended \$81,312 of its own funds to hire its own consultant to provide technical guidance and hold the system contractor responsible for performance. From the summer of 2001 to the summer of 2002, HPD gave the contractor one last opportunity to get its software to function properly. A 20-page punch list of problems was prepared. HPD found that fixing one item would spawn several new problems. Here again, the system contractor disputed responsibility for fixing newly created problems because they were not on the original punch list. In the summer of 2002, when HPD was moving to end the contract, DDC surprised HPD by granting a contract extension to the contractor without first discussing the status of the project with the police department.

Despite the dispute over the contractor's performance, HPD and the contractor were united in the viewpoint that DDC added no value to the management and implementation of this project.

### **Recommendations:**

1. We recommend that the Department adopt written policies and procedures for managing capital projects and ensure that the policies address, at minimum, the following:
  - a. The department's authority and control over changes to projects' scope of work during the development, construction and implementation of its projects, including the establishment of controls over change orders that would minimize their use during construction, require the authorized work pertain to the project, and preclude their use after a project is completed and accepted. The policies should establish which method, either contract amendments or change orders, is most appropriate to acquire additional quantities of goods under contract, based on the state procurement law and City financial policies.
  - b. The roles, responsibilities, and chain of authority for managing capital projects by DDC's project managers, be they City employees or contractors. In adopting these policies, the department should reconsider its practice of assigning different project managers as projects advance through work phases. As an alternative, it should consider the existing approach of its Mechanical/Electrical Division and the I-Team where a single manager oversees a project from inception through completion. If the department continues with the assignment of different managers for each work phase, it should establish procedures to maintain management continuity and to ensure managers share and have ready access to necessary project information about key participants, milestones, current status, funding information, etc. in the project files.
  - c. DDC and client agency's roles, responsibilities for planning, designing, and constructing their projects, including how client agencies can fully participate in revising and approving plans and designs for their projects prior to construction and obtain final plans, how the responsibility for enforcing contract terms

and agreements should be assigned, how project status and any issues arising in the development process are communicated in a timely manner to client agencies, and how the client agencies can be consulted on a regular and frequent basis to ensure their satisfaction with their projects as developed by DDC.

d. The use of appropriations for a specified project solely for that project.

e. Guidelines on the selection of consultants for Vision Team projects. In the interest of avoiding the appearance of conflicts of interest, unpaid consultants guiding Vision Teams in shaping their project proposals should be precluded from being engaged as paid consultants for those same projects. Alternatively, if the department intends to involve a consultant to both help define a Vision Team project and also design that project, then the department should execute a contract with the consultant to provide both Vision Team guidance and project design services before any work begins. Such a contract would remove any appearance of a conflict of interest.

2. Once the department has adopted policies and procedures for managing capital projects, we recommend that the department provide appropriate instruction and training to its staff on the policies and procedures and monitor compliance.

## Finding Number Two:

### The Department's Project Information Is Incomplete and Inaccurate.

- **The information maintained by the department on its capital projects and reported to the Council, other City agencies, and the public is incomplete and inaccurate.**
- **Result: project oversight by the department, the City Administration, the Council, and the public is hindered.**

We found that the information in the department's project files and the various reports produced by the City on its capital projects are incomplete and not reliable. It was difficult to determine the cost and status of the projects we reviewed for this audit.

### Project Files Preclude Determining Whether Projects Are Completed On Time and Within Budget

For certain projects managed by the department, such as Vision Team projects and those managed by the I-Team, the department prepares a "Fact Sheet" to provide an executive summary for those projects. Department administrators report that the Fact Sheets are useful for new project managers because it concisely summarizes all of the pertinent project information. During fieldwork for this audit, the department began requesting its project managers to prepare fact sheets for all capital projects.

Nevertheless, we found that the department has no established policy on maintaining project documents. Department administrators leave it up to each project manager as to how the department's official project files are maintained.

We found that for the projects we reviewed, the department's official files for these projects lacked most or all of the following:

- An index of key project documents, which would include such items as those studies necessary to develop the project, documentation of major decisions, consultant deliverables, status reports, correspondence and memoranda, including justifications for contract amendments and change orders, and others detailed below.<sup>7</sup>
- Project funding information, including initial project cost estimates, records of all operating and capital appropriations for the project, and the amount of contingency funds, expenditures, and lapses to date.
- The initial and current timetable.
- A chronology of project events.
- A list of key project participants, including those in the department, client agency, consultant, contractor, and Vision Team, if applicable.
- Information identifying where other project files and documents are maintained.

Because the information in the department's files was incomplete, we were unable to determine for all of the projects we reviewed for this audit whether each was on time and within budget.<sup>8</sup> None of the projects had their budgets and completion dates determined at the time construction funds (or equipment funds, for the computer project) were requested.

We found that the project files for the Kahaluu Flood Control project show no evidence that the project's initial budget or completion date had been determined at the time construction funds were first requested and appropriated for the project (i.e. FY 1993). The completion date was only determined in the construction contract via a 1995 contract amendment. That deadline had to be extended by

<sup>7</sup> We found only one instance in which a project manager prepared a list of the project documents to assist the next manager of the project. However, many of the documents listed were no longer in the second manager's project files.

<sup>8</sup> We did not evaluate whether Kahaluu Regional Park Phase I was on time or within budget because construction had only been initiated during the time of our field work.

more than 4.5 years (1,665 days) before final work on the project was completed.

We found that the \$1.5 million spent to complete the Salt Lake Boulevard enhancement project was well under the \$6 million estimated in the executive program and budget document prepared at the time construction funding was first requested for the project. However, it appears the \$6 million initial estimate was without foundation (see section below: "Budget Documents Were Inaccurate and Incomplete"). Regarding the project's completion date, based on the completion date contained in the project's construction contract, project completion was 85 days later than originally established.

We found that the total budget for the Mobile Data Computer project was first set in the documents for the federal grant that provided the bulk of the project's funding. However, none of the project files identified the initial budget for Phase I of the project, nor the amount expended for Phase I once it was completed. The completion date for Phase I was only estimated when the equipment vendor contract was prepared. During our field work, the staff of the client agency, Honolulu Police Department, reported that Phase I had been completed. However, none of the project files documented such completion, so we were unable to specifically determine if Phase I had been completed on time. We did find documentation that the project as a whole had been granted an extension of more than 2 years (751 days).

In light of the situation with the laptop computer project, we note that it is important that the department's oversight be maintained not only for the project as a whole but, as in the case of a complex project, also for each major component or phase. For such projects, if the budgets and completion dates for each phase are not established, we believe that the department incurs the risk that it may discover that the project is running significantly over budget or late, but that it is too late into the development process to take effective remedial action.

When we requested funding and expenditure information for the projects we reviewed, the

department directed us to the Department of Budget and Fiscal Services. We were told that department maintained information on appropriations, expenditures, lapses, payments to consultants and contractors, and any other budget and financial information that we would require. However, for the Mobile Data Computer project, we found that neither DDC nor the Department of Budget and Fiscal Services had a complete accounting of past appropriations and expenditures.

While the Mobile Data Computer project files at the police department were relatively complete,<sup>9</sup> those at DDC were incomplete. The police department reported that they had mailed two copies of all minutes from the project's weekly steering committee meetings to DDC's Mechanical & Electrical Division, whose staff attended some of those meetings. However, the DDC division could only produce a few copies of those meeting minutes.

The project files we examined were also missing correspondence documenting when each project phase was completed and how the actual scope of work for Vision projects was developed. In addition, there was minimal documentation justifying the time extensions that were granted for construction.

### **Status Reports Were Inaccurate and Incomplete**

Although the department tracks various elements in its internal project database, we found that it has no written guidelines instructing project managers what key information should be updated in the database, or the responsibilities of project managers to review and correct information in the department's database. Reportedly, project managers are too busy to regularly update all of their projects' status information. For example, we found that the Salt Lake Boulevard project we sampled actually had 14 change orders, though none were reflected in the department's status report or project Fact Sheet. The former DDC director expressed concern about the

accuracy of project status information, but explained that updating project status is low in priority compared with the project managers' other responsibilities. This raises questions about the accuracy and completeness of the information that the department's administrators maintain on their projects. It is important to ensure the information is accurate and complete because that information is used to supervise project managers and to inform other City agencies about the status of ongoing projects.

The department supplies the information contained in the City's Quarterly Capital Improvement Project (CIP) status report, which is now available online and is used by the Council and the public. However, the department submits project information for the status report using overly broad or vague descriptions or leaving spaces blank. This renders these reports useless. Even, the department's internal project status reports include many blanks. The failure to adequately report on the status of their projects' hinders the Council's oversight of the department's projects.

Information on certain capital projects managed by DDC cannot be found in the current quarterly CIP report if the project is part of a larger project category. For example, the police department's Mobile Data Computer project was subsumed under project number 92052, entitled: "Telecommunications Project." This project heading and project number has been used for the past decade for various projects implementing the City's 800 MHz radio system. More recently, the project to upgrade the police department's records management system is also included under the same project number and title.

We understand that limitations in the quarterly CIP reporting system require certain related but separate projects to be reported under the same larger project heading and project number. Even if that was true, however, the department could require its project managers to report on the individual projects that comprise a larger project heading under the CIP report's "Comment" section. Instead, the Telecommunications Project's 2003 status report for the first quarter states in the "Comment" section:

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<sup>9</sup> However, HPD's files also lacked a full record of project appropriations, expenditures, and payments.

"Various projects ongoing." For the second quarter, the comment section status report was left blank. The lack of basic descriptive information on specific projects subsumed under the Telecommunications Project precludes the Council and the public from learning about the status of projects that were otherwise separately budgeted, contracted, and managed.

### **Budget Documents Were Inaccurate and Incomplete**

The City's debt and financial policies require that the City's executive capital program and budget documents disclose for proposed projects the scheduling of work phases, the impact on the operating budget including maintenance cost, and the anticipated completion date. For the projects we reviewed for this audit, we found that the budget documents did not contain this information. Further, we found that the funding information the budget documents did provide was inaccurate.

The total multi-year budget for the Kahaluu Flood Control project was reported in the budget documents as \$2 million in FY 1993. An additional \$4 million was subsequently requested and appropriated in FY 1995 and 1999, for a total appropriation of \$6.2 million. The revised total was never reflected in the total multi-year budget. The actual multi-year expenditure was \$2.8 million, while \$3.2 million in project funding lapsed.

The Salt Lake Boulevard Enhancement project's total multi-year budget was \$6 million when the project was first included in the executive capital program and budget documents in FY 2000. In FY 2003, the total budget was reported as \$7 million. Upon completion, the project was actually expected to cost about \$1.5 million. Project managers, consultants and the Vision Champion were surprised that the project was initially estimated to cost many millions more. The department's project files did not include any information on what scope of work would justify a total multi-year project cost of \$6 million, or what in the project's scope would have required \$4 million in federal funds as reported in the budget documents.

For the Mobile Data Computer project, the executive capital program and budget documents twice reported major funding from the state that would be received in FY 1998 and 1999. This was inaccurate. HPD, the client agency, never anticipated nor received State funds for the project. Major funding for this project, a federal grant, was submitted directly to the city and never planned to pass through the state. Further, the \$12.4 million federal grant was never disclosed in budget documents.

### **City Accounting Report Was Inaccurate**

DDC is responsible for providing the Department of Budget and Fiscal Services (BFS) accurate information for another City report, an accounting report on expenditures for capital projects. We found that for the Salt Lake Boulevard Enhancement project, the Quarterly Financial Report for the 18 months ending December 31, 2001 reported that the project's entire project appropriation of \$2.2 million had lapsed, when the department had actually encumbered \$1.1 million. The report also showed the amount of construction funding expended for the project was zero, when such expenditures were actually \$380,824. This indicates that DDC's current review process for the financial information it reports to BFS is weak.

### Recommendation:

We recommend that the department establish written policies and procedures to ensure that it has adequate control over project documents and record keeping. The policies should apply to both employees and contracted project managers, and require that:

- a. A project summary or "Fact Sheet" be maintained in the official file for each project that identifies all DDC project managers and other project participants, initial project budgets and timetables, current project and contract status, project appropriations and expenditures to date, and all plans and studies that are known to be required, underway, or completed for the project.
- b. Budgets and completion dates be estimated and documented in the project file for all projects prior to the submission of any request for construction funding (or request for equipment funding for equipment supply projects). Budgets and completion dates should also be required for each phase of a complex project prior to the submission of any request for construction funding for any phase. This would enable project managers to better control the development of such projects, which is the purpose of organizing projects into phases.
- c. An index or checklist of key documents is maintained for each project file to ensure the files contain all necessary documents.
- d. Accurate and complete information on its projects is provided in the department's internal reports and in the reports the department provides to other City agencies, the Council, and the public. Key status fields should not be left blank. Information should be updated and errors should be corrected in a timely manner. Ideally, a system should be developed to track all projects using a unique project number. Until that happens, if the department reports on a project that is composed of separately managed projects, information on those separate projects should be provided under the main project heading.

### Finding Number Three:

#### **The Department's Workload, Coupled With the City's Appropriation Deadline, Leads to Rushed Plans, Impaired Bids, and Unnecessary Change Orders.**

- **Despite taking steps to strengthen its capabilities, the department has been unsuccessful in managing its heavy workload against the threat of construction funds lapsing at the end of the appropriation period.**
- **Result: the department's workload has strained its ability to manage its capital projects and safeguard the interests of the City.**

We found that the department cannot meet its workload effectively. With over 1,000 ongoing projects in FY 2002 and more contained in the FY 2003 capital budget, DDC does not expect to be able to catch up on its backlog of projects. The start of work on each fiscal year's set of new capital projects is delayed for months. At the same time, the department rushes to award contracts before the construction funding lapses. This rush has led to project plans and specifications going out to bid that are incomplete or contain obvious errors. Project managers are too busy to answer contractors' questions. Design consultants are not held accountable. The City's interests in obtaining quality work on construction projects at a reasonable price and within the time expected are therefore at risk.

#### **DDC Has Taken Steps to Deal With Workload**

The Department of Design and Construction has taken action to expedite work on its high volume of capital projects. For example, faced with 250 Vision and other projects in FY 2002, the department submitted a single allotment voucher for all of the

Vision projects; and a single allotment voucher for all of the regular capital projects. Similarly, DDC submitted a single request for approval to engage professional services consultants for its design projects. However, this expedited approach raised concerns from the Department of Budget and Fiscal Services about the loss of accountability over individual projects. As a result, for the FY 2003 projects, the department reported that it would submit separate allotment vouchers for regular capital projects, but would submit a single allotment voucher for all of the Vision projects and one for all of the neighborhood board projects.

Beginning in 1999, the department began using a contract Vision project consultant to establish agreements between the City and consultants for about 100 Vision projects. This was to avoid burdening the department's project managers with certain tasks involving the design consultants for these Vision projects. The Vision project consultant expedited preparation of the design contracts so that the design firms could begin working with the Vision Teams on their projects. Once the department approved the project's actual scope of work and design consultant's fee, the Vision consultant incorporated this into a contract amendment. Once the contract amendment was processed, the project was turned over to the project manager. Since FY 1999, the Vision consultant has been handling increasing numbers of Vision projects. The Vision consultant anticipated processing about 250 FY 2003 Vision and Neighborhood Board projects.

### **Contract Managers Need Guidance**

In response to its high workload, the department has expanded its project management resources by engaging personal services contractors, some of whom are City retirees, as project managers. Division administrators feel that this provides project management resources more quickly than filling vacant positions in the department. However, since the department has not established policies defining the role of project managers, those engaged under contract, as well as regular DDC managers, rely on informal policies and procedures and on

verbal instructions from co-workers. We found this can be especially risky concerning contract project managers, as in the case of the Kahaluu Regional Park project, where a construction management firm was supervised by an I-Team contract project manager who had no prior experience with City projects. Also, we note that the use of contract managers does not fully avoid the burden on staff since a DDC administrator or staff member would still be required to oversee the contract manager's work.

### **Work on Each Fiscal Year's New Projects Is Delayed, Then Rushed**

Funding for construction projects in the City's capital budget takes effect in July and are available for use for 18 months, lapsing at the end of December following the close of the fiscal year. The six months from July to December mark the beginning of each fiscal year and also the end of the previous fiscal year's appropriation period. We found that because of the department's high volume of projects, the first six months of each new fiscal year often pass without working on that year's projects. Given the choice of working on a new fiscal year's set of projects whose funding is available for 18 months, versus working on projects funded in the prior fiscal year and encumbering those funds before they lapse in six months, project managers are directed to focus on the latter.

Projects with both design and construction funds budgeted in the same fiscal year encounter special problems. Because work to complete design and to prepare project plans and specifications does not start for months after the fiscal year begins, the department's project managers reported that design work often has to be rushed to bid and award projects to contractors so that construction funds can be encumbered before they lapse. Twelve months after FY 2002 began (July), one division administrator reported that design work had just started on some of the FY 2002 projects, and that they were pushing to get design done for those projects so they could go out for construction bids in four months (November).

Equipment projects can also be rushed, as shown in the case of the police department's Mobile Data Computer project. The project's design consultant received the Notice to Proceed from DDC on November 4, 1998. The specifications and bid documents were completed, then used to engage a vendor to supply the equipment, software, and services for the police department. The vendor contract was awarded and executed on December 31, 1998, less than two months after the design consultant's Notice to Proceed.

### **The City Pays for Rushed Design Work**

Shortening the time allowed to design a project increases the risk of errors and omitting necessary information in the project plans. Errors and omissions in the project plans and specifications that are provided to contractors cause delays and increase City costs.

A DDC administrator, various project managers, client agency staff, a consultant and a contractor all reported that project plans occasionally do go out for bid with known errors or omissions. Contractors we interviewed said that the City's project plans issued for bid before November, the 17<sup>th</sup> month of the appropriation, generally do not contain glaring errors, but that those issued in November and December have many mistakes. The contractors are told by DDC that the errors or omissions will be taken care of through change orders during construction.

What compounds the problem is that during those last two months of the 18-month appropriation period, the department's project managers are so busy that they reportedly cannot take the time to respond to contractor's questions about the obvious errors and omissions in the project plans and other bid documents. Instead, contractors are reportedly told by DDC to "bid it as you see it." Contractors must therefore guess how the project will be built. Further, because so many construction projects are bid in this short time period, one contractor reportedly submits bids on fewer City projects than the contractor would otherwise submit if bids were solicited throughout the year.

Based on these practices, the City would not be getting the best price from contractors to build its facilities, and would incur unnecessary and costly change orders.

On one of the projects that we reviewed, the Salt Lake Boulevard Enhancement project, six of the project's 14 change orders were attributed by DDC staff to inadequate site investigation by the design consultant. The approximate cost of the six change orders was \$79,300, which represented the majority of the \$86,400 cost of the project's total of 14 change orders. The department did not pursue reimbursement of any of these costs from the design consultant.

### **Design Consultants Are Not Held Responsible for Mistakes**

There is a widely held perception among departmental staff and client agencies that DDC does not hold design consultants responsible for errors and omissions. Of greater concern was the often-repeated statement that the department covers the cost of consultants' errors and omissions by issuing change orders.

One client agency reported that past errors and omissions in consultant specifications on some of the agency's projects, such as the failure to identify asbestos in a building renovation and specifying the wrong sized doors, delayed project completion and cost the City money. The client agency could not think of an example when the DDC held a consultant responsible for errors and omissions in the consultant's specifications. Instead, the client agency reported that DDC attempts to correct such errors by issuing construction change orders. Further, the client agency reported that projects have been accepted before the contractor has satisfactorily corrected deficiencies, which gives up the City's leverage over the contractor to fix the problems. If the contractor does not fix the problem, it becomes a repair and maintenance responsibility of the client agency.

The City routinely requires consultants to maintain professional liability insurance for claims arising out

of errors, omissions, or negligence in the performance of professional services under their contract with the City. However, all of the project managers we interviewed stated that they have not received any instructions on how to hold consultants responsible for their errors and omissions. Though the department's project managers are in the best position to evaluate the cause of errors and omissions in project plans, the department has not required them to pursue reimbursement for the costs of corrective work subsequently incurred by the City.

One DDC project manager believed that it is unfair to hold design consultants responsible for errors and omissions in project plans when the City gives them so little time to complete plans and specifications. In addition, contractors we interviewed observed that correcting problems in project plans has delayed issuance of the Notice to Proceed for various projects. Since such delays hinder the department in encumbering construction funding before it lapses, we note that the department may have a short-term incentive to forego spending the time to correct consultant errors and omissions, even at the cost of requiring change orders later.

### **Conditional Awards Are Used to Prevent Construction Funding From Lapsing**

The Department of Budget and Fiscal Services (BFS) has implemented an ad hoc process to encumber construction funds to prevent lapsing at the end of the 18-month period for capital appropriations. Under this practice, BFS sends a letter informing a contractor that the firm is receiving a conditional award of the construction contract. The letter warns the contractor not to proceed with any part of the contract until the final notice of award is received, the contract documents are executed, and the Notice to Proceed is received. For two projects that we reviewed, the Kahaluu Regional Park and the Salt Lake Boulevard project, the final contract award letters were dated well after the lapsing date for the projects' construction funds.

The use of conditional award letters resulted in a comment from the City's financial auditors in the

Management Letter for the FY 2001 financial audit. The financial auditors found that the City's conditional award letters and the final award letters they reviewed shared the same date, December 29, 2000. In comparison, the letters from contractors acknowledging receipt of those award letters were dated months later, from January through April 2001. This led the financial auditors to express doubt that the dates shown on the award letters were accurate. The financial auditors recommended that the City strive to award and process construction contracts in a timely manner to prevent the possibility of lapsing funds, and that the City reconsider its lapsing date for funding.

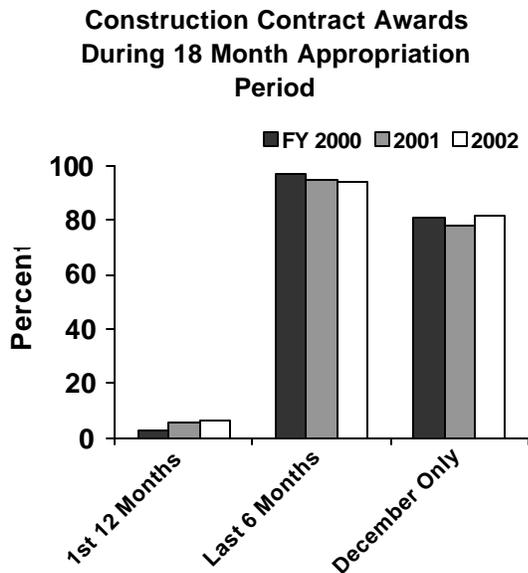
### **Alternative: Separate Appropriations for Design from Construction**

As discussed earlier, one source of problems stemming from rushed design work is the City's current practice of budgeting for both the design and construction phases of a project in the same fiscal year. The rush to finish design work and encumber construction funding within the 18-month appropriation period may be avoided by appropriating funds for construction separately, in the year following the budgeting of funds for design. In that way, even if workload concerns cause design work to begin months after the budgeted fiscal year has started, it would be more likely that design work would be fully completed before construction funding was budgeted and efforts to encumber the funds began.

Delaying a project's appropriation for construction to the year following the completion of the design phase may raise objections that doing so would delay the project. However, we found that under current practice, when both design and construction funds are budgeted for a project in the same fiscal year, construction funds are not encumbered until after the beginning of the next fiscal year. This is evidence that when design and construction funds are budgeted for a project in the same fiscal year, it normally takes the department more than 12 months to encumber the construction funds. That being the case, the construction phase funding could have been

budgeted in the year after the design phase had been budgeted without delaying the project.

As shown in the following chart, for the past three fiscal years, between three and six percent of the City's construction contracts were awarded in the first 12 months of the fiscal year, while the rest were awarded after the next fiscal year began. About 80 percent were awarded in December, the last month before capital budget appropriations lapse. For example, in FY 2002, only 9 construction contracts representing 6.3 percent of that year's 144 construction contracts were awarded in the first 12 months of the fiscal year, while 117 or 81.3 percent were awarded in the final month of the 18-month appropriation period.



Thus, construction contracts for nearly all of each fiscal year's projects are being awarded in the final months of the 18-month period. As described earlier, this is because the heavy workload of the department has delayed much of the work to begin each new fiscal year's projects.

Since most construction contracts are already awarded in the 17<sup>th</sup> or 18<sup>th</sup> month after design and construction, the appropriation of construction funding in the year following the appropriation of design funding would incur little delay in the overall development of projects. The benefit of this

approach is that the cost, timetable, and scope of projects would be better understood before the commitment of construction funding.

**Alternative: Repeal Lapse Date for Capital Appropriations**

Another way to remove the pressure to rush design work in order to encumber construction funding would be to repeal of the City Charter's 18-month deadline to use capital appropriations. Our research of seven mainland local governments that were roughly similar to Honolulu in population, land area, or capital budget size showed that none had established such deadlines. Instead, the governments used a multi-year capital program as a tool to ensure that their project management staff resources were adequate to meet their capital project workload. The number and size of projects those governments budgeted were limited by strictly adhering to the capital program. The capital program forced the governments to identify their capital program capacity, and then to prioritize their project proposals so only the top priority projects that fell within the established limits were funded. If the executive or legislative branches of government wished to add more projects to the budget, other projects were either cut or staff resources were increased accordingly.

Honolulu also utilizes a multi-year capital program in conjunction with its annual capital budget, but the City does not use its capital program to limit the capital project workload. We suggest that if the City were to use the capital program as such a tool, it would first have to determine the limits of its project management capacity. That is, it would estimate the number of projects or dollar value of capital appropriations beyond which DDC's available project management resources could not effectively handle. Then, strict discipline would be required on the part of both the executive and legislative branches of the City to keep the capital budget within those limits. While maintaining such budgetary discipline by both the executive and legislative branches over an extended period of time would appear to be difficult, nevertheless, the elimination of the lapse date for capital budget

appropriations should be recognized as another alternative for the Council to consider.

### **City Administration Could Exercise Its Budget Allotment Authority**

Finally, we would point out that the charter currently provides the Director of Budget and Fiscal Services with the authority to “[r]eview the operating and capital budget program schedules of each executive agency and make budgetary allotments for their accomplishments with the approval of the mayor.”<sup>10</sup> With respect to the executive capital budget, should the total size or number of projects in the annual capital budget exceed the resources available to implement the budget of the executive branch, namely that of the Department of Design and Construction, the executive branch has the means, using selective budgetary allotments based on the priorities of the pertinent client agencies or on citywide priorities, to reduce the number or size of projects undertaken.

### **Recommendations:**

1. We recommend that the department, the City Administration, and the Council begin budgeting construction phase funding for capital projects separately from and in the year following the budgeting of planning and design funding. This would:
  - a. Remove the pressure to rush design work and to use ad hoc contracting practices in order to encumber construction funds before they lapse.
  - b. Enable project managers to ensure project plans and specifications are accurate and complete before going out to bid.
  - c. Enable the department to more evenly distribute the bidding for construction projects throughout the year.

Alternatively, the City Administration or the Council could propose a charter amendment to repeal the existing provision that requires capital budget appropriations to lapse.
2. We recommend the department hold consultants and contractors responsible for the quality of their work on City projects.
3. We recommend the City Administration consider exercising its existing authority to match the workload from each year’s capital budget to its project management resources using selective budget allotments.

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<sup>10</sup> Revised Charter of Honolulu 1973 (2000 edition), Section 6-203 (s).

## **Finding Number Four:**

### **The Department Failed to Provide Complete and Accurate Information For This Audit**

Our audit of the department was hindered by the misleading information provided by the department, and by the refusal to provide requested information to the auditor. In certain instances, the department responded to our request for audit information by stating that the information had been discarded. For this finding, we have generalized the reporting of these instances to, as much as possible, avoid identifying the individuals involved.

First, the person designated in the department's documents as the manager for one of the projects we reviewed denied current involvement with and responsibility for the project. The designated manager also claimed that DDC possessed few project documents because the client agency had taken over the project from DDC. Despite this representation of minimal or no ongoing involvement with the project by DDC, DDC continued to include the project in its internal project status reports, and to approve contract amendments for the project.

Second, a division administrator identified by one project manager as the "real" project manager for one of the projects we reviewed also denied involvement with that project and denied any knowledge of the client agency's actions with respect to one of the project's contracts. However, our review of the client agency's records and our interviews with client agency's staff clearly indicated that the administrator participated in a meeting and had other discussions with the client agency on the subject.

Third, project managers hired by the department under personal services contract who were unfamiliar with City procedures and projects described receiving a series of internal memoranda from the department on project managers' responsibilities. Although we made several requests

for copies of the project management memoranda, they were not provided by the department.

Fourth, the current manager for one of the projects we reviewed first indicated that the project's working files from the previous manager would be made available to us for the audit. When we requested those files, however, the same manager reported that the files had been discarded.

Finally, we found that one of DDC's consultants recently discarded most of the City's official documents for many FY 1999 and 2000 projects, including materials documenting that the consultant had performed the work required under contract. Reportedly, this was done with the knowledge of DDC staff.

These incidents demonstrate the need for the department to reinforce among its employees and contractors their responsibility to cooperate with auditors and to comply with existing laws relating to access to and retention of public documents.

**Recommendation:**

We recommend that the department adopt a policy ensuring that:

- a. Auditors have unimpeded access to all departmental project files, records, staff, and contractors.
- b. Administrators, project managers, consultants, and contractors are familiar with the provisions of the State statute prohibiting records tampering<sup>11</sup>; City records retention policy<sup>12</sup>; and audit charter provisions.<sup>13</sup>
- c. Willful tampering of government records and failure to provide auditors with access to requested information will result in serious consequences to administrators, project managers, consultants, and contractors.

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<sup>11</sup> As provided in the Hawaii Penal Code (HRS Section 710-1017), anyone who knowingly and without authority destroys, conceals, or otherwise makes unavailable a government record in the person's possession is guilty of record tampering, a misdemeanor.

<sup>12</sup> Resolution 85-306 establishes the general records retention policy for the City.

<sup>13</sup> Resolution 02-39, FD1, which was ratified by the voters, establishes a new Office of the City Auditor, and requires that the City Auditor be given full access to City officers, employees, and records.

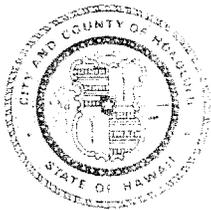
## IV. Agency Response

We requested and obtained a written response from the Department of Design and Construction to our draft audit report. The department generally agreed with the findings and recommendations of the report. However, it asserted or implied the following, which merited our comment.

- (1) That the department is not responsible for the budgeting of capital projects. OCS comment: as portrayed in the budget documents, the responsible department for most of the City's capital projects is the Department of Design and Construction.
- (2) That the department is not responsible for approving change orders. OCS comment: the department does begin the approval process by recommending approval of change orders for appropriateness before sending them to the Department of Budget and Fiscal Services for approval.
- (3) That the department is not responsible for the selection of project consultants. OCS comment: the director of DDC typically chairs the committee that recommends to the Department of Budget and Fiscal Services the short list of consultants responding to a Request for Proposals.
- (4) That the department is not responsible for the reporting of project status or project expenditures. OCS comment: the department's project managers supply the project status and expenditure information contained in the reports issued by the Department of Budget and Fiscal Services.
- (5) That the department does hold consultants responsible for their work and seek compensation from them for any errors and omissions. OCS comment: all of the DDC division administrators, project managers, and

contractors we interviewed held the opposite view.

Following the receipt of the department's response, we made minor clarifications in our report. We also deleted two minor recommendations in the draft report that the department follow the project priorities of client agencies and that it take disciplinary action against any employee or contractor who violated state or City laws and City policies.



## OFFICE OF COUNCIL SERVICES

CITY AND COUNTY OF HONOLULU  
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TELEPHONE: (808) 523-4911 FAX: (808) 527-5581

DIANE E. HOSAKA, ESQ.  
DIRECTOR

HAND DELIVERED

April 3, 2003

Mr. Tim Steinberger, Acting Director  
Department of Design and Construction  
650 South King Street, 11<sup>th</sup> Floor  
Honolulu, Hawaii 96813

Dear Mr. Steinberger:

RE: PRELIMINARY AUDIT REPORT

As you recall, we transmitted to you via letter dated February 21, 2003 preliminary findings from our audit of your department. We requested a meeting to discuss the findings and also requested a written response. Unfortunately, when we called your department, we were told that your department declined to meet and to provide a written response.

We have now completed a preliminary draft of our audit report, as attached. In accordance with our audit process, we request a written response to the preliminary draft within 10 working days, **Thursday, April 17, 2003**. Any written response we receive by that date will be included in the final audit report. If you have any questions, please feel free to call me at extension 4086.

Yours truly,

A handwritten signature in black ink, appearing to read "Ivan Kaisan".

IVAN KAISAN  
Legislative Auditor

FORWARDED BY:

A handwritten signature in black ink, appearing to read "Diane E. Hosaka".

DIANE E. HOSAKA, Esq.  
Director

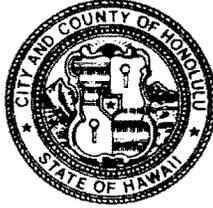
cc: Eugene Lee  
Project Controller

Attachment

DEPARTMENT OF DESIGN AND CONSTRUCTION  
**CITY AND COUNTY OF HONOLULU**

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April 17, 2003

Diane E. Hosaka, Director  
Office of Council Services  
City and County of Honolulu  
Honolulu, HI 96813

Dear Ms. Hosaka:

RE: PRELIMINARY AUDIT REPORT

Thank you for the opportunity to respond to the above transmitted to me via your April 3, 2003 letter. Our comments are provided on the attached.

If there are any questions or need for clarification, please don't hesitate to call me at 523-4564.

Very truly yours,

A handwritten signature in black ink, appearing to read "T. Steinberger".

Timothy E. Steinberger, P.E.  
Director

Attachment

cc: Managing Director

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Note: The responses provided herewith are the best that could be provided in the limited time allotted the department to respond; they are not intended to be all inclusive, and we acknowledge that some responses may lack sufficient details.

Page No.	Topic	Issue	DDC Comment(s)
2	Methodology	Selecting projects with significant issues relating to change orders, budget overages, or time overages is a gauge of the efficacy of the department's management controls.	Agree that these could be appropriate measures for evaluating the department's management controls, however, there are other considerations that should be taken into account, depending on the project. The use of construction contract change orders is an accepted practice, i.e. a change order in itself is not necessarily an indicator of poor management. Things such as unanticipated or changed field conditions that incur extra cost to the contractor are not uncommon. As contradictory as it may seem, in some cases changes orders and apparent budget overages may actually result in a better overall benefit to the City.
3	Current Agency Profile	The department has undergone at least two major internal reorganizations.	Numerous organizational proposals have been internally discussed over the initial years of the reorganization, and operated under interim organizations. The department's final organization was approved July 2002.
4	Projects Reviewed	The projects selected for review reflect the diversity of capital projects managed by the department.	Rather curious is the selection of the Kahaluu Flood Control and the HPD Mobile Data Computer System (HPD MDCS) projects in that both predate the 1998 reorganization. The projects were originally being implemented by the former Department of Public Works and Building Department, respectively. Pursuant to the reorganization, the management of them was taken over by the new divisions within DDC. This obviously created some transition issues. It would seem more appropriate to have selected projects that were initiated and implemented under the Department of Design and Construction. Additionally, the HPD MDCS project is, as acknowledged in the report, very complex, atypical and without precedence in the City.
4		Quality of information maintains internally is and provides to others is incomplete and inaccurate.	Commented to later.
4		Inadequate management exacerbated by large number of	No comment.

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		<p>projects it must develop; none of staff expects to be able to keep up with current and future workload; culture is reactionary and crisis management.</p>	
4		<p>DDC needs to take charge of the way it manages its projects and establish appropriate policies and procedures to ensure best use of limited funding for City</p>	<p>DDC is often termed as a "service" organization that serves our client agencies, the administration, the vision teams, the neighborhood boards and the city council. Our work is dictated by what is provided in the capital budget. Once the funds are appropriated and released, it becomes our mission to obligate the funds for the intended purpose before the lapse date.</p>
	<p><b>FINDING NO. 1</b></p>		
5	<p>III. Findings and Recommendations</p>	<p>Introduction</p>	
	<p>Project Management Policies and Procedures Have Not Yet Been Established</p>		<p>Our current project management practices are based on the policies and procedures carried over from the capital improvement units of the pre-1998 departments. These have been developed through years of experience, and reflect the optimum historical approaches to the varying types of facilities being improved/developed. However, these are being continually updated to address our actual workload and manpower situation. The flow charts and policies and procedures drafted by our staff at the time of the audit were primarily to assist the auditor better understand the workflows of our various divisions.</p> <p>The department would welcome the opportunity to review the information that lead to this broad statement and conclusion. However, we do acknowledge that the department does use innovative procurement techniques such as 2-step contracting, personal services contracts, consultant project management services and expanding the scope of services of our design consultants to address our workload and manpower situation</p>
5		<p>Result: the Department's capital projects are managed in an ad hoc manner, resulting in expensive change orders, inconsistent project oversight, and problems in appropriately serving client agencies.</p>	

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5	The department has no policies or procedures governing the management of its capital projects.	<p>as examples.</p> <p>True, there are no departmental written policies on the management of its capital projects. Existing written policies and procedures are carryovers from the capital improvement units of the pre-1998 departments, and are acceptable. Consequently, there are differences in how the various design divisions implement their assigned projects. However, these differences in part are due to the different requirements associated with the improvements being developed/improved. In reference to the attempt by DDC to produce flowcharts and drafting policies and procedures, this was done to assist the auditor better understand the various workflow processes of the divisions. Policies and procedures will continue to be improved.</p>
5	DDC has no established agreements with client agencies during project development process; projects are developed in an ad hoc manner.	<p>True, there are no established written agreements with client agencies. However, this is not to say that there has not been efforts to ensure the client agency's needs are taken into account during project development. As cited in the report, there is a Design Review Committee that involves the client agencies' directors. There are also scheduled "issues" meetings with the client agencies to discuss projects affecting their facilities, and to surface and resolve any related concerns. Furthermore, during each project phase, draft plans and specifications are provided to the client agency for review and comment. They are also asked to sign off on all final plans to ensure concurrence. It should be noted that many of the project management staff actually came from the client agencies pursuant to the reorganization. Consequently, there are historical relationships between the existing staffs of both departments. However, it is acknowledged that there is always room to improve communications and establish roles and responsibilities with our client agencies.</p>
6	Late change to the scope and questionable use of change orders on the Kahaluu Flood Control project.	<p>All change orders are reviewed and approved by the Department of Budget and Fiscal Services. In the context of the Kahaluu Flood Control project, the original scope of work included the ultimate disposal of the dredged material, which is often a significant issue with these types of projects. Due to dewatering problems encountered in the field, it was decided to</p>

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			use the material within the Kahaalu Regional Park instead of its original purpose of capping the Kapaa Landfill. In this case, it was a sensible solution to an engineering problem.
6		Late change to the scope and questionable use of change orders on the HPD MCDS project.	Again, change orders are reviewed and approved by BFS. In this case, both the contract and amendment were using FY98 funds, and had to be encumbered by the end of the year.
6		Diversion of funding authority is contrary to the intent of the budget ordinance and the charter.	All requests for release of funds are reviewed with BFS for appropriateness.
6		The department has not established a consistent method of acquiring additional equipment.	The matter of using a change order, amendment or new solicitation is usually a decision of what's in the best interest of the City, and is subject to BFS approval.
7		Appearance of Conflict of Interest Involving A Consultant for Vision Projects	The City's Chief Procurement Officer selects the consultants. Perhaps an opinion could be obtained from the Ethics Commission as to whether there exists a conflict of interest.
7	Project Oversight Lacks Continuity and Consistency	Continuity/information as projects are transferred from manager to manager rather than retaining one manager from design through construction.	We agree that continuity in project management would be ideal to minimize loss of project information, however, this is not always possible due to retirements, personnel movements, etc. The concept of project oversight from start to finish by a single project manager is something that was discussed and considered in the initial stages of the department's organization. While there are advantages to this in certain situations, it was felt that a more traditional approach of having design and construction branches within the divisions would be more effective. This would enable designers and construction managers to have focused expertise as opposed to general expertise. For example, in the construction management area, a road rehabilitation project has the potential to involve work on the road, utilities, grading, curb ramps, landscaping, permit issues, public relations, working with structural, electrical, geotechnical consultants, etc. not to mention familiarity with the various codes and construction regulations. A parallel could be applied to consultants who provide design services as opposed to construction management services. For a limited scope of services, we do expect one consultant to cover all design and construction oversight requirements. However, as the project scope and complexity increases, we look to the more focused expert, i.e. design or construction management specialty

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			companies to handle the various phases of work. It was also understood that the decision to separate areas of expertise did not preclude the option of assigning single project managers, if it was appropriate. To minimize the loss of project information as a project is passed over from planner to designer to construction manager is the use of "hand off" meetings involving the both the donor and recipient project managers.
8	Client Agencies Express Concerns About Poor Communication and Opportunities for Input.	Lack of written agreements with Client agencies; also that a client agency's recommendations are often ignored; each agency expressed the need for formally establishing project management roles, responsibilities, and chain of command.	Agreed that written agreements between DDC and the client agencies establishing roles and responsibilities are warranted.
9		Client Agencies reported that their recommendations to DDC are often ignored.	Opportunities for review and comment are provided to the client agencies during the various project phases, to include concurrence with the final designs.
10		DDC Inadequately Managed the Police Laptop Computer Project	The report states, DDC did not have available sufficient resources to devote the necessary time to this project. It is curious that this project was selected as a sample when it is a very atypical, complex project that predated the 1998 creation of DDC (the project was being overseen by the former Building Department). Obviously, some of the problems were transfer issues. As the report points out, all involved with the project had no actual experience implementing a system carrying both voice transmission and data from the laptop computers on the same channel as the 800 mhz radio system. Also curious is that the project was selected as it is not yet completed, which was supposedly was one of the selection criteria.
10	RECOMMENDATIONS	1.a. Adopt written policies and procedures to ensure the department's authority and control over changes during the various phases, especially to minimize change orders and preclude its use after a project is completed or accepted; also whether a contract	Construction contract change orders are a necessary and an accepted part of the construction process, and are only initiated when justified. All change orders and contract amendments are reviewed and approved by BFS. Compliance may require additional resources that need to be budgeted.

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	amendment or change order is the most appropriate to acquire additional quantities of goods.		
10	1.b. Adopt written policies and procedures to define the roles, responsibilities, and chain of authority for managing capital projects by DDC project managers; also to consider practice of a single project manager from inception through completion.	Agree. Compliance may require additional resources that need to be budgeted.	
10	1.c. Adopt written policies and procedures to define DDC and client agency's roles, responsibilities for planning, design and constructing their projects to ensure their satisfaction.	Agree. Compliance may require additional resources that need to be budgeted.	
11	1.d. Adopt written policies and procedures for the use of appropriations for a specified project solely for that project.	This is a budgeting issue beyond the authority of DDC.	
11	1.e. Adopt written guidelines on the selection of consultants for Vision Team projects.	The City's Chief Procurement Officer selects the consultants.	
11	2. Pursuant to adopted policies and procedures for managing capital projects, provide appropriate instruction and training to staff and monitor compliance.	Agree. Compliance may require additional resources that need to be budgeted.	
11	FINDING NO. 2 The Department's Project Information Is Incomplete and Inaccurate	Regarding the issue of incomplete and inaccurate internal information on DDC projects, we acknowledge that the department's project status system is presently less than optimal. From its inception in 1998, the department realized that it needed an internal management tool to catalog all of its projects and to track their progress. Understanding that the development and implementation of an appropriate system would require significant time and resources, the department internally developed an "interim" system until such time that a	

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			<p>"permanent" system could be budgeted for and implemented. Five years later, the "interim" system is still being employed. Nevertheless, improvements are still being pursued to make it a more effective management tool. Based on systems we know of in place at other government agencies, this would require in excess of \$1 million in consultant development fees with subsequent continued consultant support and multiple fulltime funded positions. Nevertheless, the department recognizes the importance of having available accurate and timely project information, and continues to pursue implementation of an appropriate permanent integrated system with adequate staffing.</p>
11		<p>DDC has no policy on maintenance of project files; project files missing key information and inadequately maintained.</p>	<p>Confirm that there is no written departmental policy on maintenance of project documents. Currently, each division continues it's former practice of file management.</p>
12		<p>Files for the Kahaluu Flood Control project were less than ideal.</p>	<p>Do not confirm or deny. Again, the Kahaluu Flood Control project was initiated over 10 years ago under the then Department of Public Works. During that period, understandably, project managers changed due to retirements, transfers and the reorganization. Consequently, the transfer of project files is an issue. Every attempt was made to maintain all related files, however, the more recent project managers may not have intimate knowledge of all documents related to the project, especially if it related to earlier work.</p>
12		<p>Budget information on the Salt Lake Blvd Enhancement project was inaccurate.</p>	<p>Agree. However, to clarify the matter, the initial project cost was developed in 1998 for a City application to the Federal Highway Administration for TEA-21 Enhancement funds. The cost estimate on the application was \$5.6 million to cover landscaping improvements and architectural treatments to the sound walls along Salt Lake Boulevard from Ala Liliiko'i to Puuloa Road. The application was unsuccessful. However, the vision team picked up on this project, and decided to advance it, but the funded improvements were significantly less than that of the TEA-21 application. Consequently, the difference in the budget documents was a matter of varying scopes of work. As for completion date for the construction contract, these are normally established at the end of the</p>

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12		Regarding documents related to Phase 1 of the Mobile Data Computer project.	design phase. The contract clearly defines Phase 1 and its requirements.
12		Neither DDC nor BFS had a complete accounting of past appropriations and expenditures.	BFS is the City's budgeting and accounting agency. Appropriation and expenditure information are normally available.
12		DDC project files of the HPD MDCS project were incomplete.	Cannot confirm or deny. It's our belief that the files are complete, but perhaps not organized in an optimal manner. As mentioned previously, since this project predated the 1998 reorganization, there were undoubtedly problems with the transfer of the project and related documents from the former Building Department to the new Mechanical Electrical Division. The ability of the limited staff to be familiar with and catalog all the related documents may have created the perception of incompleteness.
13	Status Reports Were Inaccurate and Incomplete	Department's status reports are incomplete or inaccurate	The department's Project Status Reporting System was previously discussed.
13		City's Quarterly Capital Improvement Project status report	BFS oversees this report.
13		Projects are subsumed in larger projects are not reported on	BFS oversees this report. In DDC's Project Status Reporting System, the HPD MDCS project is listed separately.
14	Budget Documents Were Inaccurate and Incomplete	City's executive capital program and budget documents did not disclose the scheduling of work phases, the impact on the operating budget, et al.	This was probably an oversight.
14		The revised total multi-year budget for the Kahaluu Flood Control project was never revised.	Unfortunately, this was probably overlooked as a result of the reorganization.
14		The department's files did not include information on what scope of work would justify the \$6 million original cost estimate for the Salt Lake Boulevard Enhancement project.	This was previously discussed. The project files only include documents related to the vision initiative.
14		The budget documents for the HPD	The executive program and budget documents are overseen by

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		MDCS project were inaccurate.	BFS.
14	City Accounting Report Was Inaccurate	DDC is responsible for providing BFS accurate information on expenditures.	Disagree. BFS is the City's accounting agency. DDC processes and approves contract invoices, but all resulting actual payments, i.e. expenditures, are accounted for by BFS.
15	RECOMMENDATIONS	a. Adopt written policies and procedures to maintain a project Fact Sheet to document all pertinent information in the project files.	Agree. The Fact Sheet provided by the auditor was a prototype of what will eventually be developed for all DDC's significant projects. This initiative is intended to be an integral part of the department's Project Status Reporting System, which is dependent on adequate development and implementation funding. In the meantime, the department's interim system continued to be developed as much as possible.
15		b. Adopt written policies and procedures to require the project files to include estimate and document budgets and completions dates to support future funding requests and provide for better project management and development.	Agree. However, DDC in many instances does not control how or how many projects are incorporated into the budget.
15		c. Adopt written policies and procedures to provide for an index or checklist of key documents for project file to ensure the files contain all necessary documents.	Agree.
15		c. Adopt written policies and procedures to provide for an index or checklist of key documents for project file to ensure the files contain all necessary documents.	Agree.
15		d. Adopt written policies and procedures to ensure accurate and complete project information is provided in the department's internal reports and in reports to others; all projects should be tracked with a unique project number.	The Quarterly Status of Capital Projects report is under the jurisdiction of BFS. Written procedures for DDC's internal Project Status Report will be developed as part of the ongoing effort to provide the projects managers with direct access to the system. The use of unique project numbers is a BFS issue.
15	FINDING NO. 3	DDC cannot meet its workload effectively.	No comment.

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15	DDC Has Taken Steps to Deal With Workload	True. However, as discussed earlier, due to various reasons, the department has found it necessary to employ innovative approaches in order to implement the various improvements called for in the capital budget.
16	Contract Managers Need Guidance	Agree to some extent. Contract workers are especially effective if they are retired City project managers. Those without City experience are assigned to work with an experienced City project manager until they come up to speed.
16	Work on Each Fiscal Year's New Projects is Delayed, Then Rushed	There is some truth to this, but does not apply to the entire department. The department has had much success in addressing its workload, but could be more successful with additional staff/resources. Workload leveling and personnel reassignments within the department are being looked at, but various hurdles must still be overcome.
17	The City Pays for Rushed Design Work	The City compensates it consultants as provided in the contract provisions.
17	Design Consultants not Held Responsible for Mistakes	The department does seek compensation from consultants for errors and omissions that result in higher construction cost due to resulting delays.
17	Client agency reports that DDC attempts to correct consultant errors and omissions with change orders, and accepts projects before deficiencies are corrected.	Before commenting, the department would need specific examples.
18	City has not required or provided project managers with guidance on pursuing reimbursement from consultants for costs of corrective work.	There are no written departmental guidelines on this.
18	Conditional Awards Are Used to Prevent Construction Funding From Lapsing	It allows the department to award a worthy contract.
19	Alternative: Separate Appropriations for Design and Construction (into different years)	Agree that this practice would result in better understood cost, timetable and scope of project. However, as mentioned previously, this many times is out of DDC's control.
19	Alternative: Repeal Lapse Date for Capital Project	Beyond DDC's control.
19	Use the capital budget to limit the	Agree.

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20		project workload. City Administration Could Exercise Its Budget Allotment Authority	This is a BFS issue.
20		1. The department, City Administration and the Council begin budgeting construction phase funding for capital projects separately from and in the year following the budgeting of previous phases; reasons cited.	This recommendation is beyond the control of DDC.
20		2. The department hold consultants and contractors responsible for the quality of their work on City projects.	The department does currently hold consultants and contractors responsible for the quality of their work. As mentioned previously, compensation is sought from consultants for errors and omissions that result in higher construction costs due to delays. Also, the City presently rates consultants at the conclusion of their contracts. Poor performance may impact consideration of that consultant for future City work. As for contractors, poor quality work is addressed by withholding payments, non-release of retention or use of the contractor's performance bond for corrective action.
20		3. The department establish polices and procedures that enable it to identify and honor the priorities of each client agency for its projects if DDC is unable to adequately manage its project workload.	Agree. There is also a need to also address the Vision and Neighborhood Board programs.
20		4. The City Administration consider exercising its existing authority to match the workload from each year's capital budget to its project management resources using selective budget allotments.	No comment.
21		The Department Failed to Provide Complete and Accurate Information For This Audit.	We are not aware of any uncooperative behavior by department staff in conducting the audit. If such was encountered, it should have been brought to our attention immediately. However, we would be glad to follow-up on the allegations if more specific information is provided.
21	<b>RECOMMENDATIONS</b>	1.a. The department adopt a policy	This should be a Citywide policy, i.e. not only DDC.

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		<p>ensuring auditors have unimpeded access to all departmental project files, records, staff and contractors.</p>	
21		<p>1.b. The department adopt a policy where administrators, project managers, consultants and contractors are familiar with State statutes relating to record tampering and retention and audit charter provisions and ordinances.</p>	<p>A policy should not be necessary to force compliance with statutory and charter requirements.</p>
22		<p>1.c. The department adopt a policy that willful tampering of government records and failure to provide auditors with access to requested information will result in serious consequences to administrators and employees.</p>	<p>Same as 1. b.</p>
22		<p>2. That the department investigate and take appropriate disciplinary action against any employee and contractor who violates the provisions of State statutes prohibiting records tampering; records retention charter provisions, ordinance, and policies; and audit charter provisions and ordinances.</p>	<p>The department will consider referring the matter to the Department of Corporation Counsel pending receipt of evidence substantiating the allegations.</p>
		<p>DDC COMMENT</p>	<p>Although it was agreed at the onset of the audit that all requests for information be coordinated through the department's administration, we became aware of that this was not being done. Consequently, a second meeting reiterating this agreement became necessary. While we recognize the need to have some flexibility on the part of the auditor, it is unclear who was interviewed and for what purpose. Consequently, it would be helpful if a list of everyone interviewed for this report were provided.</p>